

**FIRST LEGISLATIVE DAY
MONDAY, JANUARY 12, 2004**

House of Representatives

The House convened at 12 noon, January 12, 2004, the time established for convening the Second Regular Session of the Fifty-seventh Legislature, the members of the House of Representatives convened in the House Chamber of the Capitol Building in the City of Boise, with Bruce Newcomb, Speaker, presiding.

Roll call showed 65 members present.

Absent and excused -- Bell, Boe, Kellogg, Meyer, Schaefer.

Total -- 5.

Total -- 70.

Prayer was offered by Chaplain Jim Hardenbrook.

The Pledge of Allegiance was led by Chaplain Jim Hardenbrook.

There being no objection, the House advanced to the Fourth Order of Business.

**Consideration of Messages from the
Governor and the Senate**

THE OFFICE OF THE GOVERNOR
EXECUTIVE DEPARTMENT
BOISE, IDAHO

CERTIFICATE OF APPOINTMENT

KNOW ALL MEN, by these Presents that pursuant to the provisions of Section 59-904A, Idaho Code, the Legislative District 21 Committee of the Republican Party has submitted a list of three names for consideration in filling a vacancy in the District 21 Legislative House of Representatives seat.

NOW, THEREFORE, I, JAMES E. RISCH, Acting Governor of the State of Idaho, by virtue of the authority vested in me by Section 59-904A, Idaho Code, do hereby appoint Clifford R. Bayer, to the position of State Representative, District 21, House Seat B, for a term commencing on May 29, 2003, and continuing until the next general election when the term of office expires.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused to be affixed the Great Seal of the State of Idaho.

Done at Boise, the Capital of Idaho, this 29th day of May in the year of our Lord two thousand and three, and of the Independence of the United States of America, the two hundred and twenty-seventh year.

/s/ JAMES E. RISCH
Acting Governor
/s/ BEN YSURSA
Secretary of State

The Certificate of Appointment was ordered filed in the office

of the Chief Clerk.

The Speaker announced the oath of office had previously been administered to Mr. Bayer.

THE OFFICE OF THE GOVERNOR
EXECUTIVE DEPARTMENT
BOISE, IDAHO

CERTIFICATE OF APPOINTMENT

KNOW ALL MEN, by these Presents that pursuant to the provisions of Section 59-904A, Idaho Code, the Legislative District 19 Committee of the Democrat Party has submitted a list of three names for consideration in filling a vacancy in the District 19 Legislative House of Representatives seat.

NOW, THEREFORE, I, DIRK A. KEMPTHORNE, Governor of the State of Idaho, by virtue of the authority vested in me by Section 59-904A, Idaho Code, do hereby appoint Anne Pasley-Stuart, to the position of State Representative, District 19, House Seat A, for a term commencing on December 18, 2003, and continuing until the next general election when the term of office expires.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused to be affixed the Great Seal of the State of Idaho.

Done at Boise, the Capital of Idaho, this 18th day of December in the year of our Lord two thousand and three, and of the Independence of the United States of America, the two hundred and twenty-eighth year.

/s/ DIRK A. KEMPTHORNE
Governor
/s/ BEN YSURSA
Secretary of State

The Certificate of Appointment was ordered filed in the office of the Chief Clerk.

The Speaker announced the oath of office had previously been administered to Mrs. Pasley-Stuart.

The Chief Clerk read the official proclamation as follows:

I, BEN YSURSA, Secretary of State of the State of Idaho and legal custodian of the records of elections held in the State of Idaho, do hereby certify that the following is a full, true and complete list of those elected to serve as members of the House of Representatives of the Second Regular Session of the Fifty-seventh Legislature, as shown by official records on file in my office:

DISTRICT	NAME
1	John L. Campbell (R), George E. Eskridge (R)
2	R.J. "Dick" Harwood (R), Mary Lou Shepherd (D)
3	James W. Clark (R), Wayne R. Meyer (R)
4	Bonnie Douglas (D), George Saylor (D)
5	Hilde Kellogg (R), Charles Eberle (R)
6	Tom Trail (R), Shirley G. Ringo (D)
7	Mike Mitchell (D), Mike Naccarato (D)

8 Ken A. Roberts (R), Charles D. Cuddy (D)
 9 Lawrence E. Denney (R), Clete Edmunson (R)
 10 Robert "Bob" Ring (R), Darrell Bolz (R)
 11 Kathy Skippen (R), Gary W. Bauer (R)
 12 Robert E. Schaefer (R), Gary E. Collins (R)
 13 Dolores J. Crow (R), W.W. "Bill" Deal (R)
 14 Mike Moyle (R), Henry Kulczyk (R)
 15 Steve Smylie (R), Max C. Black (R)
 16 Margaret Henbest (D), David Langhorst (D)
 17 Kathie Garrett (R), Janet J. Miller (R)
 18 Debbie Field (R), Julie Ellsworth (R)
 19 Anne Pasley-Stuart (D), Ken Robison (D)
 20 Mark A. Snodgrass (R), Shirley McKague (R)
 21 William T. "Bill" Sali (R), Clifford R. Bayer (R)
 22 Richard Wills (R), Peter Nielsen (R)
 23 Francis Field (R), Douglas R. Jones (R)
 24 Leon Smith (R), Sharon Block (R)
 25 Wendy Jaquet (D), Tim Ridinger (R)
 26 John A. "Bert" Stevenson (R), Maxine T. Bell (R)
 27 Scott C. Bedke (R), Bruce Newcomb (R)
 28 Dennis M. Lake (R), Joseph S. Cannon (R)
 29 Allen R. Andersen (D), Elmer Martinez (D)
 30 Donna Boe (D), Elaine Smith (D)
 31 Larry Bradford (R), Eulalie Teichert Langford (R)
 32 Janice McGeachin (R), Ann Rydalch (R)
 33 Jack T. Barraclough (R), Lee Gagner (R)
 34 Mack G. Shirley (R), Dell Raybould (R)
 35 JoAn E. Wood (R), Lenore Hardy Barrett (R)

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of Idaho. Done at Boise, the Capital of Idaho, this Fifth day of January, in the year of our Lord, Two Thousand and Four, and of the Independence of the United States of America, the two hundred and twenty-eighth.

/s/ BEN YSURSA
 Secretary of State

The Certificate of Election was ordered filed in the office of the Chief Clerk.

There being no objection, the House advanced to the Seventh Order of Business.

Motions, Memorials, and Resolutions

HOUSE RESOLUTION NO. 5 BY DENNEY AND JAQUET A HOUSE RESOLUTION

FIXING THE COMPENSATION OF THE EMPLOYEES OF THE HOUSE OF REPRESENTATIVES OF THE SECOND REGULAR SESSION OF THE FIFTY-SEVENTH IDAHO LEGISLATURE.

Be It Resolved by the House of Representatives of the State of Idaho:

WHEREAS, House Rule 74 provides that the compensation of the employees of the House of Representatives shall be fixed

by resolution of the House of Representatives.

NOW, THEREFORE, BE IT RESOLVED by the members of the House of Representatives that the compensation of the various officers and employees of the House of Representatives of the Second Regular Session of the Fifty-seventh Idaho Legislature be fixed as follows:

Chief Clerk and Parliamentarian	\$17.77 hourly
Assistant Chief Clerk	\$13.95 hourly
Docket Clerk	\$12.67 hourly
Journal Clerk	\$12.67 hourly
Chaplain	\$17.45 hourly
Sergeant at Arms	\$13.95 hourly
Assistant Sergeants at Arms	\$10.60 hourly
Administrative Assistant to Majority Leadership ..	\$12.67 hourly
Administrative Assistant to Minority Leadership ..	\$12.67 hourly
Secretaries to Minority Leadership	\$10.60 hourly
Secretary to Agricultural Affairs Committee	\$10.60 hourly
Secretary to Appropriations Committee	\$11.67 hourly
Secretary to Business Committee	\$10.60 hourly
Secretary to Education Committee	\$11.67 hourly
Secretary to Environmental Affairs and Commerce and Human Resources Committees	\$11.67 hourly
Secretary to Health and Welfare Committee	\$10.60 hourly
Secretary to Judiciary, Rules and Administration Committee	\$11.67 hourly
Secretary to Local Government Committee	\$10.60 hourly
Secretary to Resources and Conservation Committee	\$10.60 hourly
Secretary to Revenue and Taxation Committee	\$11.67 hourly
Assistant Secretary to Revenue and Taxation Committee	\$10.60 hourly
Secretary to State Affairs Committee	\$11.67 hourly
Secretary to Transportation and Defense Committee	\$10.60 hourly
Secretaries/Receptionists	\$10.60 hourly
Copy Machine Operators	\$10.36 hourly
Chief Lounge Host	\$10.36 hourly
Assistant Lounge Host	\$ 9.69 hourly
Legislative Public Information Center Director	\$13.95 hourly
Information Specialist	\$10.60 hourly
Telephone Operators	\$10.36 hourly
Tour Guides	\$10.36 hourly
Pages	\$ 5.65 hourly

BE IT FURTHER RESOLVED that if the Change in Employee Compensation Committee adopts a percentage increase recommendation for state employees, these hourly amounts shall be increased by a like percentage.

HOUSE CONCURRENT RESOLUTION NO. 34 BY DENNEY AND JAQUET A CONCURRENT RESOLUTION

PROVIDING FOR A JOINT SESSION OF THE HOUSE OF REPRESENTATIVES AND THE SENATE OF THE SECOND REGULAR SESSION OF THE FIFTY-SEVENTH IDAHO LEGISLATURE FOR THE PURPOSE OF HEARING A MESSAGE FROM THE GOVERNOR.

Be It Resolved by the Legislature of the State of Idaho:

WHEREAS, the Governor has informed the House of Representatives and the Senate that he desires to deliver a message to a Joint Session of the House of Representatives and the Senate of the Second Regular Session of the Fifty-seventh Idaho Legislature in the Chamber of the House of Representatives at 7 p.m. on Monday, January 12, 2004.

NOW, THEREFORE, BE IT RESOLVED by the members of the Second Regular Session of the Fifty-seventh Idaho Legislature, the House of Representatives and the Senate concurring therein, that the House of Representatives and the Senate meet in Joint Session on Monday, January 12, 2004, at 7 p.m. for the purpose of hearing the message from the Governor.

HR 5 and **HCR 34** were introduced, read the first time by title, and referred to the Judiciary, Rules, and Administration Committee for printing.

Mr. Denney asked unanimous consent that two committees be appointed by the Speaker; one to notify the Governor, and one to notify the Senate that the House is organized and ready to do business. There being no objection, it was so ordered.

The Speaker appointed the following committees to notify the Governor and the Senate.

Representatives Barraclough, Langford, and Henbest were appointed as the committee to notify the Governor and Representatives Jones, Raybould, and Mitchell were appointed as the committee to notify the Senate. The committees were excused.

There being no objection, the House returned to the Fifth Order of Business.

Report of Standing Committees

January 12, 2004

Mr. Speaker:

We, your COMMITTEE ON JUDICIARY, RULES, AND ADMINISTRATION report that we have printed **HCR 34**.

FIELD(18), Chairman

HCR 34 was held at the Desk.

There being no objection, the House advanced to the Seventh Order of Business.

Motions, Memorials, and Resolutions

Mr. Denney moved that all rules of the House interfering with the immediate consideration of **HCR 34** be suspended; that the portions of Section 15, Article 3 of the Constitution of the State of Idaho, requiring all bills to be read on three several days be dispensed with, this being a case of urgency; and that **HCR 34** be read the first time by title, second time by title, and third time at length, and placed before the House for final consideration.

Seconded by Ms. Jaquet.

The question being, "Shall the rules be suspended?"

Roll call resulted as follows:

AYES -- Andersen, Barrett, Bauer, Bayer, Bedke, Black, Block, Bolz, Bradford, Campbell, Cannon, Clark, Collins, Crow, Cuddy, Deal, Denney, Douglas, Eberle, Edmunson, Ellsworth, Eskridge, Field(18), Field(23), Gagner, Garrett, Harwood, Jaquet, Kulczyk, Lake, Langhorst, Martinez, McGeachin, McKague, Miller, Moyle, Naccarato, Nielsen, Pasley-Stuart, Ridinger, Ring, Ringo, Roberts, Robison, Rydalch, Sali, Sayler, Shepherd, Shirley, Skippen, Smith(24), Smith(30), Smylie, Snodgrass, Stevenson, Trail, Wills, Wood, Mr. Speaker.
Total -- 59.

NAYS -- None.

Absent and excused -- Barraclough, Bell, Boe, Henbest, Jones, Kellogg, Langford, Meyer, Mitchell, Raybould, Schaefer.
Total -- 11.

Total -- 70.

Whereupon the Speaker declared that more than two-thirds of the membership having voted in the affirmative, the motion carried, the rules were suspended, and **HCR 34** was read the first time by title, second time by title, and third time at length, and placed before the House for final consideration.

At this time, the Speaker recognized Mr. Denney to open debate.

The question being, "Shall **HCR 34** be adopted?"

Whereupon the Speaker declared **HCR 34** adopted by voice vote and ordered the resolution transmitted to the Senate.

There being no objection, the House advanced to the Thirteenth Order of Business.

Miscellaneous and Unfinished Business

The following committee assignments were made:

Lincoln Day Committee

Representative Garrett, Chairman
Representative Miller
Representative Sayler

Memorial Committee

Representative Langhorst, Chairman
Representative Snodgrass
Representative Skippen

Representative Barraclough will serve as Chairman of the Education Committee and Representative Raybould will serve as Chairman of the Environmental Affairs Committee. Representative Bayer will serve on the Education Committee and the Business Committee and Representative Pasley-Stuart will

serve on the Judiciary, Rules, and Administration Committee and the Local Government Committee.

BUSINESS (15)

Black, Chairman
Gagner, Vice Chairman

Deal
Kellogg
Meyer
Collins
Block
Rydalch
Cannon
Eberle
Snodgrass
Bayer

Henbest
Smith(30)
Douglas

Edmunson
Kulczyk
Nielsen
Ring
Shirley
Wills

LOCAL GOVERNMENT (9)

Barrett, Chairman
Collins, Vice Chairman

Eskridge
Clark
Smylie
Bradford
Miller

Ringo
Pasley-Stuart

EDUCATION (18)

Barraclough, Chairman
Lake, Vice Chairman

Jones
Trail
Bradford
Block
Rydalch
Bauer
Cannon
Eberle
Garrett
Kulczyk
Nielsen
Bayer

Boe
Andersen
Naccarato
Saylor

There being no objection, the House returned to the Seventh Order of Business.

Motions, Memorials, and Resolutions

The committee appointed to notify the Governor that the House was in session returned to the House and reported they had conveyed the message to the Governor and that the Governor sent his greetings and best wishes for a productive session. The committee was thanked and discharged by the Speaker.

The committee appointed to notify the Senate that the House was in session returned to the House and reported that they had conveyed the message to the Senate, and the Senate returned its best wishes for a productive session. The committee was thanked and discharged by the Speaker.

At this time, Senators acting as a committee from the Senate, were escorted into the House Chamber to notify the House of Representatives that the Senate was organized and ready for business. The Speaker thanked the committee.

Mr. Denney moved that the House recess until 6:15 p.m. Seconded by Ms. Jaquet. Motion carried.

Whereupon the Speaker declared the House at recess until 6:15 p.m.

ENVIRONMENTAL AFFAIRS (9)

Raybould, Chairman
Harwood, Vice Chairman

Meyer
Ellsworth
Campbell
Edmunson
Snodgrass

Smith(30)
Saylor

RECESS

The House reconvened at 6:15 p.m., the Speaker in the Chair.

Roll call showed 69 members present.
Absent and excused -- Bell. Total -- 1.
Total -- 70.

JUDICIARY, RULES, & ADMINISTRATION (16)

Field(18), Chairman
Clark, Vice Chairman

Sali
Ellsworth
Smith(24)
Ridinger
Harwood

Boe
Andersen
Pasley-Stuart

Prior to recess, the House was at the Seventh Order of Business.

Motions, Memorials, and Resolutions

Mr. Denney asked unanimous consent that a committee be appointed to wait upon the Senate and escort the Senators to the House Chamber for the purpose of attending the Joint Session.

There being no objection, it was so ordered.

The Speaker appointed Representatives Bolz, Bedke, and Shepherd as the committee to wait upon the Senate. The committee was excused.

The committee appointed to wait upon the Senate returned and reported that the Senate was waiting to enter the House Chambers. The Speaker thanked and discharged the committee.

JOINT SESSION

Pursuant to **HCR 34**, the hour of 7 p.m. having arrived, the members of the Senate entered the House Chamber and met in Joint Session with Speaker Newcomb presiding.

Roll call of the House showed 69 members present.
Absent and excused -- Bell. Total -- 1.
Total -- 70.

Roll call of the Senate showed 34 members present.
Absent and excused -- Calabretta. Total -- 1.
Total -- 35.

Mr. Moyle asked unanimous consent that one committee be appointed to wait upon the Supreme Court Justices and Appellate Court Judges and one to wait upon the Elected Officials and escort them to the House Chamber. There being no objection, it was so ordered.

The Speaker appointed Senators Darrington and Burkett, and Representatives Field(18) and Boe as the committee to wait upon the Supreme Court Justices and Appellate Court Judges and Senators Stegner and Sorensen, and Representatives Ridinger and Martinez as the committee to wait upon the Elected Officials and escort them to the House Chamber. The committees were excused.

Mr. Denney asked unanimous consent that the Speaker appoint a committee to wait upon the Governor and escort him to the House Chamber. There being no objection, it was so ordered.

The Speaker appointed Senators Davis and Stennett and Representatives Denney and Jaquet as the committee to wait upon the Governor and escort him to the House Chamber. The committee was excused.

The committee appointed by the Speaker escorted the Supreme Court Justices and the Appellate Court Judges to the House Chamber where they were presented to the Joint Session.

The committee appointed by the Speaker escorted the Elected Officials to the House Chamber where they were presented to the Joint Session.

The committee appointed by the Speaker escorted the Governor to the House Chamber.

His Excellency, the Governor of the State of Idaho, Dirk Kempthorne, was introduced by the Speaker and the following State of the State Message and Budget Address was delivered by Governor Kempthorne:

Mr. Speaker, Mr. President, distinguished members of the Legislature, Madame Chief Justice, and distinguished members of the Judiciary, fellow Constitutional Officers, and my fellow Idahoans:

Last year, in the midst of substantial economic crisis, I delivered a message that was difficult, but with no hesitation I can affirm that it was the right thing to do. Last year's speech was also one of the shortest speeches I have delivered before this legislature and yet it sparked the longest session in Idaho history. So, without much exaggeration, I can say that it seems like only yesterday that you and I were here. Thank you for inviting me back and thank you for your partnership last session. It wasn't easy for any of us. But the results were clear. Essential services and responsibilities are covered. We are educating our children, caring for our seniors, providing for our veterans, and promoting economic growth.

In the spirit of economy, and with the hope of doing my part to keep this session shorter, tonight I will deliver both my State of the State and Budget Messages. Perhaps it will set the tone for the task at hand. The tough decisions we made last year have paid off, and tonight I will affirm to you that as I anticipated, we're on the road to recovery.

The current fiscal year, FY 2004, which started July 1st and ends June 30th, is sound. We will have sufficient funds to get us through FY 2005. Tonight as we discuss the FY 2005 budget we must focus on how it impacts the following year. Some of our existing financial assets will go away. For example, you know that we're the beneficiaries of more than \$83 million in one-time, federal assistance. We won't receive that money again next year. The more than \$170 million in temporary sales tax revenue will also go away when it sunsets in June of 2005. In 2006, we will also experience a budget anomaly that happens once every 11 years that adds an extra pay period for state employees. This 27th pay period is significant and will cost us an estimated \$20 million.

So as we prepare, the key word is restraint. Budget pressures will not ease, and the demands on state resources will continue to grow. Therefore, we must be wise, we must be prudent, and we must have vision.

This budget meets the demands of short-term cyclical problems and we're beginning to implement long-term structural changes that will result in better government. We should be proud of the steps we have taken over the past few years that have positioned Idaho so well. But we must not be complacent. While we have tremendous opportunities, we still face significant challenges. The reason that FY 2006 is so critical is because, as just stated, some of our current financial assets will no longer exist in that year. By the following year, FY 2007, I believe we will see a full recovery and a robust national economy. So tonight, my remarks will focus on restraint, efficiencies, restructuring, doing more with less, and continuing to build on our successes.

Tonight I present a bare-bones budget that projects a 6.2 percent increase in revenues with only a 3.98 percent increase in expenditures. More than half of the spending increases are required by state or federal law. We are positioning ourselves so that in two years we will still have a balanced budget that does not rely on federal assistance, the temporary sales tax increase,

and other one-time money.

This is a \$2.083 billion budget that contains no inflation other than medical, no significant enhancements other than where we can demonstrate return on investment, and only one major capital outlay expenditure, which is for replacement of emergency vehicles and equipment.

We will make the \$20.7 million transfer from the General Fund to the Budget Stabilization Fund on schedule. We will receive the \$22.4 million from the tobacco settlement into our Millennium Fund on schedule. You will also see in my budget more than \$3 million in expanded tax credits and incentives to boost our economy and improve health care for our citizens in every region of the state. Budget projections show that the temporary sales tax is just that, temporary. It means considerable discipline to get there, but the expiration of the sales tax can proceed as planned.

As the national economy shows signs of recovery, Idaho is among those leading the way. We are well positioned because in the face of tough economic times, we did not retreat. We refused to become victims of a national recession. We did cut back, just as any good business would do in tough times, but at the same time, we charted a course for this ship of state to be a flagship for recovery. I want to compliment you. You should be proud of what you did last session.

Consider what we accomplished. We have accelerated construction on 10 years' worth of buildings at our colleges and universities. These buildings will greatly benefit students and the surrounding communities, and turn a \$68 million investment into a \$200 million boost to the state's economy. The bonding resolution, which you passed, allowed this to happen. It is true economic stimulus. You should be proud of what you helped create. Many members of the Legislature joined me on our college campuses to celebrate these successes and also as we broke ground and dedicated economic development projects in all regions of Idaho.

Thanks to our Rural Initiative and leveraging other economic development funds, we are opening business parks in Council, Mackay, New Plymouth, Orofino, and Salmon. New businesses like Ashley Inn in Cascade, WOW Logistics in Jerome, and the Hunt Lodge in McCall are open, putting Idahoans to work.

There are a host of other successes, including downtown improvement projects in St. Maries, Elk City, Kamiah, Montpelier, Firth, Bonners Ferry, Hagerman, and Sandpoint. Idahoan Foods in Rupert reopened thanks to a state grant; Rocky Mountain Hardware has expanded in Shoshone; Dell Computer in Twin Falls keeps growing; Empire Airlines, a top-flight company, is expanding in Coeur d'Alene; Qwest is adding more workers in Boise, Pocatello, and Idaho Falls; and Hecla Mining is expanding their workforce by 50 percent in northern Idaho.

I'm proud of the fact that a national study ranks Idaho first in the country for growth and expansion of women-owned businesses.

Why are businesses moving to or expanding in Idaho? Let me read to you what C.J. Buck, President of Buck Knives, said about moving his business to Post Falls:

"It was the legislative climate in Idaho, which is incredibly business friendly. There is an understanding that making life easier on local business benefits the state..."

And that same theme is reflected by August Busch in a letter he sent to me just four weeks ago.

"One of the reasons that we chose to expand our facility in [Idaho], rather than elsewhere, is the friendly environment you have fostered for our industry through your tax policies and support of businesses such as ours."

Along with the new Modelo plant, the expansion of the Anheuser Busch facility in Idaho Falls will mean \$40 million in annual purchases from local malt barley growers.

I suppose that we could have gone to communities around the state, stood in vacant lots and offered excuses about the woes of recession. But instead, we stood in front of newly constructed businesses and we affirmed our commitment to building Idaho. We must continue our efforts. Therefore, I am asking you to restore full funding to my Rural Initiative. With a full \$3 million in block grants we can continue to aggressively boost business development throughout Idaho.

I'm optimistic because I know the character of our people. Idahoans are tough and can rise to any challenge. That's exactly what happened with our outstanding state employees. When asked to do more with less, they have been innovative, efficient, and have performed magnificently. As the nation's fifth-fastest growing state, the demands on state services increase, especially in the face of shrinking budgets. The fact is, we have fewer state employees per capita today than we did ten years ago. What we can, and must do, is recognize our outstanding public servants. Therefore, my budget includes an additional \$10 million for employee salary increases. On top of that, another \$11 million is in the budget to cover increased costs for health insurance and retirement contributions on behalf of our state employees. I ask you to join me in thanking our more than 17,000 dedicated state workers. With their help, we've faced our problems head-on. We haven't used smoke and mirrors. There are no gimmicks. No shifting payments to the next fiscal year. Our game plan is solid.

That's what impressed Wall Street. In June, I joined Treasurer Ron Crane and Senator Dean Cameron to make our case before the national bond rating agencies. We told the Idaho story and they liked what they heard. As a result, we maintained our top bond ratings and not only did that save us millions of dollars in interest, but it has benefitted communities across the state.

Moscow is utilizing our state bond rating and low interest rates to build a needed and impressive expansion to Gritman Hospital. Salmon is also benefitting from our bond rating and strong fiscal position to build a state-of-the-art hospital to meet pressing community needs.

Another element of ensuring economic viability for new business growth is an incentive to create high paying jobs. In 2001, I signed into law a \$500 new job tax credit. I want to raise the bar by doubling the credit if the new jobs pay high wages and include benefits. The last three years have shown that when the

state provides the incentive, the private sector will invest.

Our innovative Broadband tax credit for high-speed communications is a conduit allowing prosperity to flow to rural Idaho and Idaho products to flow to the world. We knew the potential, but we couldn't quantify the outcome. Now we can. More than half the state has high-speed connections; but the job's not finished and that tax credit is set to expire.

It's the same with our Research and Development Tax Credit. Has it been successful? Just ask Micron Technology, which brought manufacturing jobs and some of the latest technology home from overseas, including an incredible medical breakthrough; the "camera-in-a-pill." Ask AMI Semiconductor in Pocatello, a world leader in custom integrated circuits for everything from pacemakers to automotive brakes and security systems. Both companies have opened new multi-million dollar R&D facilities. But now that tax credit, too, is set to expire. So my recommendation tonight is to continue these incentives so that we can connect all of Idaho with the latest in high-speed communications and continue to promote research and development. I'm asking you to make these tax incentives permanent. The tax credits and incentives represent an investment of more than \$2.5 million. We're not standing still, we're continually moving forward by investing and by not accepting the status quo.

We have implemented a number of recommendations from the Science and Technology Advisory Council. Led by Dr. Billy Shipp, this group has shaped Idaho's efforts to build our science and technology industries. The R&D Tax Credit was a direct result of the Science and Technology Advisory Council report. This year, I'm recommending that we adopt another of the Council's recommendations.

The world of telecommunications is rapidly changing and it's time for our state law to align itself with the realities of the current market. I ask you to consider legislation that allows telecommunications companies the choice to opt out of the current rate-of-return regulatory environment. Policies such as this will encourage continued investment and deployment of new services, enhance competition, and bring the best products and newest technologies to Idaho consumers and businesses.

Just as Idaho was the first state in the nation to move into a free market environment in the telecommunications industry in 1988, it's time for us to lead again. It's no accident that high-tech is rebounding in Idaho. Beyond the investments made by Micron and AMI Semiconductor, there's a new scientific research park in Post Falls, thanks in large part to the generous support of the Jacklin family.

As a direct result of the Science and Technology Advisory Council's blueprint, we have established three TechConnect offices throughout the state to interface with Idaho universities, technology corporations, entrepreneurs, and government. These offices will assist us in our efforts to continue to build an entrepreneurial culture that supports and nurtures new high-tech ventures in Idaho.

At Idaho State University, the new Idaho Accelerator Center will show a 25-to-1 return on the state's \$1 million investment. Partnering with the private sector, researchers at the center are working on a prototype scanner to detect nuclear materials in rail

cars and cargo containers. There's also significant opportunity in the aerospace industry.

You've seen the importance of science and technology to Idaho's economy. I believe it now deserves full-time attention. So tonight, I'm announcing the creation of the Office of Science and Technology. Using existing resources and a new investment of \$100,000, we will begin pushing an aggressive agenda to expand science and technology throughout the state. I've asked Karl Tueller, a veteran of the Department of Commerce, to head this new office. Karl is a strong leader and he has the experience and the passion to make this a successful endeavor.

While Science and Technology is a key element to business growth, education is the foundation. Last year, in an extremely difficult economic climate, we made the decision to support education and, in fact, increase our funding to public schools while at the same time, providing additional accountability for those education dollars.

This year, while some states will be forced to cut education, I am proposing to you a K-12 budget that again provides an increase. As part of my \$961.8 million budget for K-12 education, I've included \$10 million in discretionary funding for increased salaries; the same amount set aside for salary increases for our state workers. With these additional dollars for education, I want to continue our success in public schools.

Think of all that we have accomplished. For the first time ever, statewide standards are in place for math, reading, and language skills. Now, the Class of 2006 will begin taking the Idaho Standards Achievement Tests or ISAT. These students will have as many as six opportunities to pass all sections of the test. While the ISAT will test the knowledge of our students, it is really a test to measure the effectiveness of our schools so that we can continually strengthen and improve how we teach our children to be ready to compete successfully in the world. We continue to make steady advancements in our efforts to have our young people reading at grade level by the third grade. The Idaho Reading Initiative is working.

Soon, thanks to the generosity of the Albertson Foundation, we will launch ISIMS, the Idaho Student Information Management System, that will help parents and teachers track student achievement and attendance through a secure Internet access. Think of it, parents will now have a tool to check their student's test scores, attendance, and progress 24/7.

Every state is working to follow federal legislation to ensure that no child is left behind when it comes to public education. It has not been a simple task, but I commend our State Board of Education, which has been aggressive in implementing No Child Left Behind.

At the same time, there has been a great deal of discussion this past year about charter schools. Let me affirm that I support charter schools. We must not be afraid to challenge the status quo as we strive for an ever-improving educational system.

We are stewards of the taxpayers' dollars, with a Constitutional duty to provide a sound education for our young people. Our goal should be to look for and support every possible opportunity to raise the bar in education.

Idaho is one of only two states to have adopted the American Board Certification for Teacher Excellence. This means that school districts can now look to qualified individuals in their communities, maybe a retired CPA who can teach accounting, or a Registered Nurse who might teach health, and put those talents to use in a classroom to benefit our next generation.

Several years ago we embarked on a new partnership with local school districts to ensure that our children have a safe environment in which to learn. **H 315** was landmark legislation that allowed the state to cover all or a portion of the interest for a district that passed a bond to get their "school houses in order." Seven school districts utilized the opportunity to partner with the state in fixing or replacing deteriorated and even condemned school buildings. One of those districts was Troy. I was honored to deliver the final commencement address last spring in the old, 98-year-old high school, and then return a few months later to dedicate Troy's new high school. Those 13 graduates, and in fact the entire community, were grateful for your help in building a brand new, state of the art facility. The original school was built using square nails. So, when I spoke to those proud graduates, I gave each of them an antique, square nail so that they would remember their roots and the solid foundation they received at that school. Troy High School has come a long way in 100 years.

Fremont, Boundary, Minidoka, Wendell, and Wallace school districts also utilized this incentive provided by the state. The Whitepine school district was the last to pass a bond based on this incentive program, but by then, there was only a small portion of the original \$10 million left in the fund. I have set aside the remaining \$377,500 in interest requested by the Whitepine District. I now ask you to appropriate these funds.

In higher education, I've met with the college and university presidents and told them to prepare for a flat line budget next year. But even with a flat line budget, our college and universities will see an additional \$5.3 million, or an increase of nearly 2.5 percent because of the salary increases for faculty and staff, and the increased funding for benefits.

We are continuing funding for scholarship programs to assist young Idahoans to attend secondary or professional-technical schools in state. Education remains the top priority for this state. Public schools and higher education receive 63 cents out of every tax dollar.

Scholarships for children of POW/MIAs continue, as does financial assistance for our members of the National Guard and recruits who want to seek higher education degrees.

Another thing I'm proud to say we've accomplished for military families is we stayed on course with the Idaho Veterans Cemetery. You may have noticed as you came to the Statehouse today that the POW/MIA flag is flying over this building. It will fly over the Capitol every day until the hallowed ground to honor our veterans is dedicated this summer. At that time, the flag will be transferred to the permanent memorial to our fallen heroes.

Idaho has lost her own heroes in the war on terrorism, and tonight I want to honor those who gave their lives in defense of our freedom: Major Gregory Stone of Boise, Sergeant Richard Carl of King Hill, and Private First Class Jerrick Petty of Idaho Falls. To the families of these men, on

behalf of all citizens of the State of Idaho, our sincere thanks and prayers are with you for your sacrifice.

To all men and women serving in our armed forces, including the hundreds of Idaho National Guard and Reservists who served during Operation Iraqi Freedom and the Idahoans currently deployed in the region, I want to thank you for what your service means to the state and the nation.

Over a year ago, I asked 48 talented Idahoans to form a bipartisan, statewide Blue Ribbon Task Force to review state government from top to bottom. J.D. Williams and Chuck Winder co-chaired this remarkable group and did an outstanding job. The final assessment from the Blue Ribbon Task Force used words like consolidation, modernization, privatization, streamlining, and efficiencies. They made a number of short-term and long-term recommendations, and so far, more than 60 percent of the short-term recommendations have been implemented, including those you approved last year. I have already taken action on some of the longer-term recommendations.

By executive order, I directed the merger of the Disability Determination Service with the Department of Labor. As a result, we've redirected nearly \$400,000 away from administrative costs into services to help people find jobs. Idaho's DDS Division has gained national recognition, improving productivity from 36th in the nation to number one. I have also directed the Military Division to streamline its operations by consolidating the Bureau of Disaster Services and the Bureau of Hazardous Materials. The new agency, the Bureau of Homeland Security, is not only more efficient, but it more closely reflects the current needs and realities in the aftermath of September 11th.

It's also my intent to consolidate two executive agencies that share the common goal of business and workforce development. As we work on growing the state's economy, we've recognized the synergy that exists between the Departments of Commerce and Labor. Many times I've been in meetings with companies considering moving to Idaho. Even as the meetings ran into late nights and early mornings, the Directors of Commerce and Labor have been by my side. I believe that by merging these departments we can maximize our resources, eliminate any redundant functions, while continuing to recruit and retain businesses and create jobs for hard working Idahoans. I have asked Director Roger Madsen to continue in his double duty over both agencies and to oversee any structural changes that may be necessary. His talents will make this a smooth transition. Therefore, this session, I will send you legislation to merge these departments.

When consolidation of two departments into one can help supercharge economic and workforce development and eliminate duplication, that is a winning combination. We will continue to look for ways to consolidate, modernize, and streamline state government and institute common sense solutions. For example, today many Medicaid recipients are penalized if they have a job. I say we remove the penalty and enable Medicaid recipients to work without losing health care benefits and services that help them remain independent. I urge your support of this common sense change.

In this year, our Medicaid reforms are projected to save more

than \$80 million. Add that to previous years, and the total is more than \$160 million. Yet not one person has been dropped from our programs. We have improved service while reducing costs. I hope you agree with me that not only are the savings significant, but it's the kind of reforms that Idahoans can embrace.

As part of these reforms, we began actively promoting enrollment in the Healthy Connections program to provide everyone in Medicaid with a primary care physician to reduce unnecessary and costly emergency room visits. It's working. Two years ago, enrollment was at 31 percent. We set a goal to increase that to 68 percent. What are the actual results? We far exceeded our expectations. Enrollment is now approaching 80 percent.

We realigned medical reimbursement rates, and while some people thought this would drive the doctors away, it's actually done the opposite. In the last year, an additional 750 physicians are now accepting Medicaid patients.

These are the kind of efficiencies we're looking for and will continue to implement. But despite our reforms, health care costs continue to rise. This year it's going to cost us an additional \$58 million to pay for increased health care costs. Of that, \$43 million will come from our general fund, and \$15 million is going to be paid by one-time federal assistance.

As Chairman of the National Governors Association, I have made long-term care my initiative for the year. It's an issue we will all face. It's one of the fastest growing parts of our state budget. It's estimated that one out of every three Americans may go broke paying for long-term care. Private long-term care policies promote independence and choice for our seniors, and reduce the already overwhelming burden on our state Medicaid budget.

In 2001, I signed into law a 50 percent tax deduction for long-term care insurance. This year, I've allocated \$500,000 to increase this deduction to a full 100 percent. We must encourage investment in long-term care policies. This represents sound tax policy and health care policy. We should be dedicated to guaranteeing the dignity that our parents and grandparents deserve.

But this is not the sole cure for our rising Medicaid costs. Until we, as individuals, begin to make significant changes to the way we treat diet and exercise, we will continue to see higher rates of chronic disease and higher costs in health care. Our focus as a society should not just be on health care, but also on health.

Let me now take a moment to address the health of our environment. Protecting wildlife and enhancing recreational opportunities remain a priority. First, we have been blessed with a tremendous snowpack in the mountains. This is great news for every farmer and rancher in the state. Every basin in the state is currently above average and this certainly bodes well for recharge of our reservoirs. We know that we have critical issues of water remaining before us, but we have made progress and will continue to find solutions.

My standard for enhancing and preserving species is cooperation not conflict. In that same spirit, we are actively

working to remove wolves from the Endangered Species list. It's been nine years almost to the day since these predators were imported into Idaho and their numbers have exploded at the expense of our big game herds. The wolves have recovered biologically, now let's get the federal bureaucracy out of the way and let Idaho manage the wolves.

Speaking of good management, while many states were forced to close parks and cut their recreation programs, Idaho was able to open its 30th and newest state park this August, Castle Rock State Park in Cassia County. It's a wonderful addition to Idaho's world-class parks which are visited by more than 2 million people each and every year.

If we continue to build our infrastructure and market Idaho to the world, the visitors will come, and they'll leave knowing that Idaho is one of the most beautiful places on earth.

In Valley County, Tamarack is constructing the first all-season resort to be built in the nation in over 20 years and it's already gaining national attention. Just last week, the Washington Post named Tamarack as one of the top ten "Hot Destinations" in the country. Tamarack not only represents the newest asset in Idaho's recreation and tourism portfolio, but it's also bringing new jobs and an economic boost to Valley County and the state. I believe we will see the same synergy in the Silver Valley with the expansion of Silver Mountain resort.

We're on course and gaining momentum. But we must not take anything for granted.

The budget I submit to you tonight, two days early, is structured to keep us on the path to recovery. It's built on the principle of restraint, with a commitment to meet our legal obligations and ongoing support for basic services while aggressively pursuing that which is working.

You will also note in the budget there's virtually no capital outlay. There is \$560,000 for the Idaho State Police. Whether patrolling our highways or investigating crimes, the members of the Idaho State Police need to have safe and reliable vehicles and equipment. Day in and day out, they put their lives on the line to keep our communities and our highways safe. I would ask you to join me in thanking all our dedicated law enforcement professionals in the Idaho State Police, as well as correction officers and parole officers.

Much work has been done in the area of corrections. As a result of our efforts over the last year, the adult prison population has remained stable. This is due to the hard work and dedication of the Department of Correction, the Parole Commission, and the Judiciary. Because of the success of these partnerships, my budget provides no additional resources for prison population increases.

Again, we cannot afford to look at FY 2005 in a vacuum. Traditionally, we've had the luxury of budgeting one year at a time. While we always budget with a vision for the future, this year, we must look at the budget in terms of 24 months.

It is true that the national economy is recovering. National unemployment is down to 5.7 percent and Idaho's is at 4.8 percent, the lowest since March of 2001. State revenues are up and in fact, we're projecting an estimated \$68 million carryover

from this proposed budget to meet our obligations two years from now.

On those facts alone, it could be tempting to relax and declare victory. However, let me emphasize that we have not returned to the boom days of the 1990's. We are one more year into what is a multi-year path to recovery. If our numbers hold, by FY 2007 I believe we will have turned the corner to where ongoing revenues again match our projected growth. Until then, the critical steps we took last year show that we're willing to take responsibility and lead. This year, I'm asking you to join me in continued budgetary restraint.

Let me remind you what will happen in two years when some of our existing financial resources go away. The \$83 million of one-time federal money is gone. The \$170 million temporary sales tax revenue is gone. We have an additional payroll expenditure of \$20 million. So as we prepare, the key word is, indeed, restraint.

The budget challenges I just mentioned will only compound the demands on state resources. Therefore, we must be wise; we must be prudent; we must have vision; and we must stand firm.

This budget meets the demands of short-term cyclical problems and we're continuing to implement long-term structural changes that will result in better government.

We should be proud of the steps we have taken over the past few years that have positioned Idaho so well. But we must not be complacent. While we have tremendous opportunities, we still face significant challenges.

So, what's the condition of Idaho? What's the state of the state? We can proudly say to our fellow Idahoans that this state stands tall among all 50 states. That we have demonstrated a resolve and a resiliency in some of the toughest times imaginable. From a national recession and terrorist attacks to a war that overthrew a tyrant, we have remained strong.

Last year, when we were faced with difficult decisions, the media and others questioned why I would expend the political capital to lead out with tough medicine for our tough times. First, it was the right thing to do. Second, because for the rest of my life whenever I look young students in the eye, I'll know that I did right by them. I didn't take the easy way out, and neither did you. It wasn't about politics, it was about our future.

I'm proud to serve with you. The hard work we do inside this historic building is paying dividends all across Idaho. When it gets tough, remember those graduates of Troy High School. Folks, you helped make that happen and you ought to be proud of that. On behalf of untold youngsters, I say thank you.

Tonight, I'm going to deliver to you a CD-ROM containing my speech, my entire budget, and more information about the success we've shared together. For the folks at home, this is all available on the Internet.

Every member of the Legislature will receive a CD with all the details of my Executive Budget. The Division of Financial Management is preparing to address this tomorrow morning, two days earlier than normal, as the Joint Finance and Appropriations Committee begins its deliberations.

We're ready to go.

I also want you to reflect on this nail from Troy High School. Ladies and Gentlemen of the Idaho Legislature, here's where we've been and here's where we're going.

One of the big blockbuster films of this past year, *Seabiscuit*, starred a good friend and fellow Idahoan, Gary Stevens, one of the greatest jockeys ever. The outstanding producers of *Seabiscuit*, Frank Marshall and Kathleen Kennedy, who have produced some of the movie masterpieces of our day, chose to premier this epic film here in Idaho. If you haven't seen the movie, I encourage all of you to see it with your family. I'm not going to give away the key parts of this, but it does affirm that when you are on a very spirited, talented racehorse, there are times that you must keep tight hold of the reins and control that horse. In fact, on the back stretch, you may even want to let a competitor draw even with you so that your horse can look the challenger in the eye because it will never allow anything to overtake it. Particularly in a long race, there are times to focus your energy and be prepared for the final stretch. At the right time, the reins can be loosened, the energy unleashed.

With the budget challenges we face this year, and next, we too must keep in mind the home stretch. It will require us to keep a tight rein on our budget, and once we see those challenges of FY 2006 through, we should be able to loosen the reins and hit full stride.

Ladies and gentlemen of the legislature and fellow Idahoans, many states have entered this race to pull out of this national recession. Idaho will go the distance, and we intend to win. Just like that champion in the movie, Idaho is a champion.

Thank you, and God Bless America, and God Bless Idaho.

Good night.

The Speaker thanked Governor Kempthorne.

The committee appointed to wait upon the Governor came forward and escorted him to the gallery.

Chief Justice, Linda Copple-Trout, was introduced by Representative Field(18) and, spoke briefly to the Members of the Joint Session.

The Speaker thanked Chief Justice Linda Copple-Trout.

The committee appointed to wait upon the Governor came forward and escorted him to his office and was, on its return, thanked and discharged by the Speaker.

The committee appointed to wait upon the Supreme Court Justices and the Appellate Court Judges came forward and escorted them from the House Chamber and was, on its return, thanked and discharged by the Speaker.

The committee appointed to wait upon the Elected Officials came forward and escorted them from the House Chamber and was, on its return, thanked and discharged by the Speaker.

Mr. Denney moved that the Governor's State of the State

Message and Budget Address be printed in both the House and Senate Journals. Seconded by Ms. Jaquet.

The question being, "Shall the motion carry?"

Whereupon the Speaker declared the motion carried by voice vote and ordered the Governor's State of the State Message and Budget Address printed in both the House and Senate Journals.

Mr. Denney moved that the Joint Session be dissolved. Seconded by Ms. Jaquet. Motion carried.

The Senate returned to its Chamber.

There being no objection, the House advanced to the Sixteenth Order of Business.

Adjournment

Mr. Denney moved that the House adjourn until 11:15 a.m., Tuesday, January 13, 2004. Seconded by Mrs. Boe. Motion carried.

Whereupon the Speaker declared the House adjourned at 8:29 p.m.

BRUCE NEWCOMB, Speaker

ATTEST:

PAMM JUKER, Chief Clerk